

Economics of Democracy

This is a continuation of the serial by F. MASON PADELFORD, M.D., which was begun in the December issue. Reading between the lines makes it increasingly clear that Dr. Padelford is one physician who realizes not only that much of our illness springs from unhealthy social conditions, but that such conditions are themselves in large measure the result of our faulty economic system.

Indirect taxation has this one merit: It produces revenue—but by methods which, in ethics, have no defense. Under it, the few are taxed by the government, and the many are more heavily taxed by these few. The many, entertaining the belief that only those who own property are taxed, manifest little interest in the management of the public's business, and too often, not only consent to, but actually urge all sorts of civic extravagance.

The taxes paid, directly and indirectly, by the average family of five persons in the United States amount to not less than \$600 per year. This means that the in-

clusion of taxes in the prices which are paid for the many things which are purchased in the course of the year cripples the family's buying power by at least this amount.

To indirect taxation, and the evils incident to it, the failure of the capitalistic system to satisfactorily function must be attributed. That there are other causes, we must admit. Indirect taxation, however, is the major cause, and until this is done away with there can be neither industrial peace nor continued prosperity. While fault may be found with the capitalistic system, the fact remains that under it peoples have prospered as under no other. Because of its taxation handicap it is breaking down. It will function smoothly if, and only if, this handicap is removed.

No one will question the right of Labor to its wages. Few will deny the right of Capital to a legitimate return. But what is Rent? And to whom, from a moral standpoint, does it belong? In the whole realm of Political Economy there is no question of more vital importance.

It should be noted that the term "Rent," except when otherwise indicated, refers to ground, or economic, Rent.

That which loosely is called "house rent" is, in reality, interest.

Rent is defined as "That which is yielded by land in excess of the yield of the poorest land in cultivation under equal conditions." To make clearer the meaning of this definition, let us translate it into terms of dollars and cents.

Picture a small but growing town in and about which there are available for cultivation sections of agricultural land of different grades of fertility, and in which there is an annual demand for one thousand bushels of wheat. Let us assume that, at a labor cost—interest need not here be considered—of \$1,000 per section, there can be produced, in one year, upon the first, one thousand bushels of wheat; upon the second, nine hundred bushels; and upon the third, only eight hundred.

The yearly demand being for but one thousand bushels, obviously but one section of land will be cultivated, and this the best of those which are available—that which may be called the "thousand bushel land." Wheat will sell for \$1.00 per bushel, and the entire crop for \$1,000.

When, owing to an increased population and a corresponding increase in the demand for wheat, the price of this commodity advances to \$1.12 per bushel, the land of the second grade will be used. Nine hundred bushels of wheat, at this price, will bring \$1,000. But now the crop obtained from the highest grade soil brings \$1,120—of which \$120 is Rent.

The poorest land will be resorted to when, for its crop, \$1,000 can be obtained—when wheat sells for \$1.25 per bushel. When this point has been reached the crop grown on the best land will bring \$1,250, and that on the land of the second grade, \$1,125. All in excess of \$1,000, in each case, is Rent—\$250 and \$125.

If population grows less the demand for wheat will grow less, and the price of wheat will fall. Rent, therefore will decrease. The owner of Rent-producing land, regardless of his efforts and skill, will witness the shrinkage and perhaps ultimate disappearance of the Rent-part of his income.

The fact is suggestive that public expenditures rise and fall as population rises and falls, and as Rent rises and falls. To the reasoning observer this phenomena should be as instructive as was the falling apple to Isaac Newton.

Rent is a civilized-population consequent. Where justice rules it will be regarded as the property of the society which creates it. Morally it is the property of society.

Ground Rent is the result of high commodity prices, not the cause. Rent is high because prices are high; prices are not high because Rent is high. Distinction must be made, however, between true and speculative Rent. Power to exact speculative rent carries with it power to arbitrarily raise commodity prices.

This community of ours, to obtain revenue, may either tax land, on the basis of value—which is but a means of appropriating Rent—or it may tax wheat. If, by exercise of the taxing power, the entire \$375 of Rent is turned into the public treasury, the price of wheat will not be affected. The cultivator of each section of land,

the tax having been paid, will receive for his year of work, \$1,000. Each worker will receive all that he earns, and none will be unjustly treated.

It may be that a tenant is paying to the owner of land its full Rent. Assume that the government levies on the land a tax equal to this Rent. The owner, to recover the tax, must collect from the tenant, not only the Rent, but also the tax. The tenant, being free to resort to not-taxed land at the margin, is under no obligation to pay the increase. The availability of free land is the tenant's protection.

If those who cultivate Rent-producing land attempt, by raising the price of wheat, to recover from consumers the Rent tax which they have been required to pay they will fail, and this for the obvious reason that the "marginal" producer, using land which produces no Rent, and which therefore is not taxed, will be able to sell wheat for \$1.25 per bushel.

The price of commodities is established by the cost of production at the margin.

If wheat is taxed the tax will be added to its selling price, and consumers will pay. And if it so happens that before reaching the final purchaser the wheat passes through several hands, the ultimate selling price will include, not only this one tax, but several of such taxes, plus a profit on each one.

Too great emphasis can not be given to the fact that while taxes levied upon products of labor increase the prices for which these are ultimately sold, taxes on ground Rent decrease the selling price of land, and increase the selling price of no commodity.

A tax on Rent is not, and cannot become, a consumer's tax, if land at the natural margin is free. A tax on true Rent cannot be shifted.

In seeking to make clear the so-called "Ricardian Law of Rent," we have used, as an illustration, agricultural land. To explain in detail the application of this law to land used for other purposes, and in cities and towns, would require far more space than is here available. Suffice it to say that the law does apply to all land, wherever located and however used.

It can hardly be necessary to state that the land which brings the greatest Rent return is that in and about our cities and large towns. Farm land has relatively little value.

Civilization, as we know it, is based upon the right of the individual to own property. Men intuitively recognize that the products of their own labor belong to them; that to the producer belong the things produced. The right of the individual to own land rests upon no such foundation. Men will not build upon, or otherwise improve, land, unless they are given some guarantee that they will be able to hold it for a period at least as long as the probable life of the improvements. Therefore to make secure property in products, and to encourage productive enterprises, we have established by law *private property in land*. But private property in land should not involve private property in Rent. If Rent is regarded as private property it will be capitalized, and land will be bought and sold as a commodity.

(To be continued next month)